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DEALER INSIGHTS

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Dealer Digest

Getting more out of forecasting

If you use forecasting at your dealership, and feel that you put a lot more effort into the process than the benefits you derive, you aren't alone. Eighty percent of businesses contacted in a recent survey say they're reaching less than one-half of their potential productivity in their budgeting and forecasting efforts.

Nonetheless, 73% of the respondents still consider forecasting to be a "valuable activity," according to the survey by CEB, a member-based advisory company. Here are some suggestions for getting the most out of your forecasting efforts.

Starting out on the right foot

A financial forecast is a statement of the expected outcome of a given set of events. Start your annual forecasting process with a firm idea of what you want to forecast and how you'll use those predictions as the year advances.

First, consider what data sources you'll use. Your manufacturer's daily operating control (DOC) reports contain timely, comprehensive information. Your manufacturer's research (on the market share your franchise should obtain) is another essential forecasting resource.

Industry reports are another good forecasting tool because they analyze economic trends. And using anecdotal evidence and guesstimates based on what's happening in your marketplace is an additional way to incorporate the knowledge you possess that reaches beyond facts and figures.

An annual forecast allows you to set milestones for your dealership. At a minimum, your forecast should predict your income, expenses and net profits in each department month by month.

Forecasts have an additional use beyond business planning: Banks are increasingly requesting them at the time of loan applications. And they'll hold you to your financial predictions, which is another reason for your forecast to be realistic.

Adjusting the forecast

A forecast will let you know what to financially expect as you review where your business stands monthly, or even weekly. You can then adjust your strategies and create action plans to stay on target. You'll reforecast your dealership's financial outcomes when effects happen that will influence your business. Forecasts also can help you identify risks — and take the necessary steps to mitigate them.

Budgets and forecasts work hand in hand. Your forecast combines budget information with actual results and new trends and events to "forecast" results continuously through the 12 months.

Analyzing possible scenarios

Forecasting presents the opportunity to analyze various scenarios that could affect your dealership. You might want to create both conservative and optimistic income projections to cover all bases.

For example, you suspect that a dealership in your market with the same franchise will shut its doors sometime in the next six months. You can predict the effect the closing will have on your business (on income, cash flow, showroom traffic, staffing and so on). Forecasting this event can prompt you to formulate action plans to maximize the opportunity and grow your bottom line.

Here's another scenario: The economy in your market takes a downturn and new car sales fall off, again. If your dealership fails to meet a forecast for two months in a row, management should take action. What would you do to keep your forecasted net income on track? Would you lay off staff? Would you try to expand your used car and service operations? Would you postpone that planned building renovation?

Forecasts (and budgets) vary in the length of time they cover and in the amount of detail they provide. Three- to five-year forecasts are most useful as long-term strategic planning tools. Detailed month-by-month forecasts are essential as management tools if sales fluctuate seasonally, which they do at most dealerships. A good place to start is with an annual forecast that predicts, at a minimum, your income, expenses and net profits in each department month by month for the coming year.

The value of insight

Going through the process of forecasting provides insight into the components of your dealership that make it tick. The closer you keep an eye on the "moving parts," the better prepared you'll be to react wisely to change — strategically and operationally — and, as a result, meet your financial goals. ■

Who's on the forecasting team?

Each department head should create annual forecasts for each area of your dealership's operation, and base those predictions on changing scenarios. The department managers, along with the general manager, will then develop your budget for the year. Your controller or treasurer can assist with financial questions, and help the team with the expense side of the budget to make them aware of which items constitute the various lines on your profit and loss statement. This also is a great exercise to find excess expense or waste within your dealership's operation.

Your CPA can assist you in specific areas, such as cash-flow forecasting and comparative industry benchmarking. Once you've gone through the process and have templates in place, the job will be much easier next time around.

Take another look at leasing

Understanding your customers' mindset is key

It seems like only yesterday when leasing was at the bottom of your dealership's radar screen. Some of the major franchises were closing their leasing operations, because the profits weren't there and they feared further losses. At the same time, financing dollars were absent for customers who, hit hard by the recession, were looking at leasing as a luxury they could no longer afford.

But that was then. Signs now point to a resurgence in auto leasing. Experian Automotive, a provider of automotive data, for example, recently announced that auto leasing has reached the highest level since the company began tracking data in 2006. According to its most recent *State of the Automotive Finance Market* quarterly report, leasing made up a record 27.5% of all new vehicles financed, up from 24.4% in the first quarter of 2012.

So it's time to revisit, or revive, your leasing operation if you haven't already done so. And to be truly effective, you'll need to think like your customers.

The customer point of view

The reasons why customers are again turning to leasing are the same as they've always been. Industry watchers say that being able to always drive a new car is a top draw for consumers. And the ability to drive a more expensive car than one could normally afford is another part of leasing's lure. On the practical side, customers like that their cars are always under warranty — those who lease in the common three-year cycle are usually under the manufacturer's bumper-to-bumper warranty.

Customers who leased their last new vehicles are much more likely to lease their next new vehicles than take out a loan or lay down cash for a new set of wheels, according to researchers. But they — especially new customers — don't show up at your store without concerns. A central issue is that leasing is believed to be more expensive than buying.

A new analysis

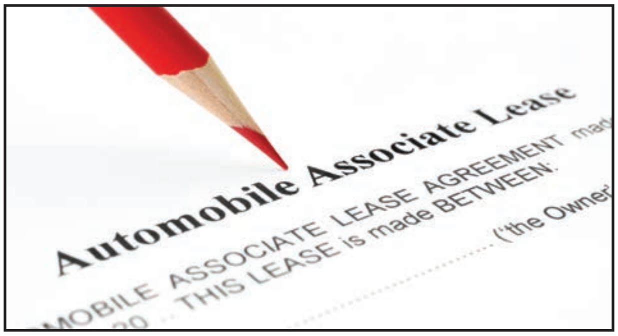
Edmunds.com in June updated its frequently circulated analysis comparing the costs of new, used and leased cars. Conventional wisdom has long held that buying a car is less expensive than leasing a car, and customers who enter your showroom typically carry that belief. The new analysis reaffirms that assumption, and adds some new considerations.

Using the example of a popular model of sedan that retails at $24,500, Edmunds compared a customer who leases two new models back to back over a six-year period vs. a customer who purchases the same car via a five-year loan and then keeps the vehicle an additional year. (Six years is now the average length of ownership for a new car.)

Under this scenario, the total out-of-pocket cost for leasing the new sedans was $24,768, compared to $28,830 for buying one new sedan and keeping it six years. However, the person who bought the new car would own a depreciated vehicle worth about $11,000 at the end of the six-year period. The customer who leased would have nothing.

Edmunds then took the analysis a step further. It calculated the costs of insuring a leased car vs. a depreciating car as well as the owner's costs of repairs not under warranty during the six-year period.

The conclusion was that the person who leases saves money on extra maintenance costs, but pays almost as much in extra insurance



premiums, so that the out-of-pocket expenses in the two scenarios are almost a wash. Of course, the customer who purchased the car still has it after six years to use toward the purchase of another vehicle (or to keep driving).

Consider the angles

Leasing has pros and cons and it's up to your salespeople to provide new-car shoppers with the necessary facts to make informed decisions. Savvy customers will be thinking through these angles themselves, and will appreciate the honesty. ■

4 tips for thwarting identity theft

Here's an identity theft example, based on a real case, which would make your customers' hair stand on end: Police arrested two sales managers in connection with 29 identity theft cases. The dealership employees were accused of taking credit information from qualified buyers with good credit standing and using it to help unqualified buyers purchase vehicles.

Police learned of the unscrupulous activity when the dealership's customers started reporting that their credit ratings had been adversely affected. In some cases, customer credit reports showed the customer had purchased two and sometimes even three vehicles when, in fact, they had only purchased one.

Frightening stories of identity theft take place at auto dealerships and other retail enterprises every year. Here are some tips to help prevent this from happening at your dealership. Also check applicable state and federal requirements.

1. Check job applicants' backgrounds carefully

Background checks on prospective employees obviously protect against hiring unscrupulous people. You need to check not only for criminal records, but also obtain credit reports and require drug tests for employees with direct access to sensitive information. Financial distress and drug habits can provide motives to steal.

Also ask for references and follow through with phone interviews. Once you've hired someone, explain your privacy policies and provide regular compliance training.

In the example above, the sales managers may have had reputations in the area as top salesmen and their backgrounds may not have been explored fully — or certain infractions may have been overlooked.

2. Encrypt data on your website

The Internet may be a valuable source of leads, but it also can be a security risk. If you ask for financial information on your dealership website, make sure the data is encrypted.

If you're unsure, ask your website provider. The provider should use terms like "site certificate" or "SSL," which means "secure sockets layer," and it's what keeps sites secure by encrypting data so only your browser can read it. If not, your online application could be putting customers at risk. Also, make sure that your employees aren't communicating customer-sensitive information through text messages or e-mails, as these vehicles are normally not secure.

3. Limit access to customer data

It's surprising how many dealer management systems allow carte blanche access to customer files. Treat sensitive consumer information as if it's your own. Would you want your Social Security number or credit score lying open on someone's desk or displayed on a computer screen for all to see? Not likely.

Set computers and smartphones to go into sleep mode after an inactive period and require a password to unlock the devices. Store deal jackets in locked file cabinets behind locked doors. Employees should never remove deal jackets from your dealership premises, under the guise of "working from home."

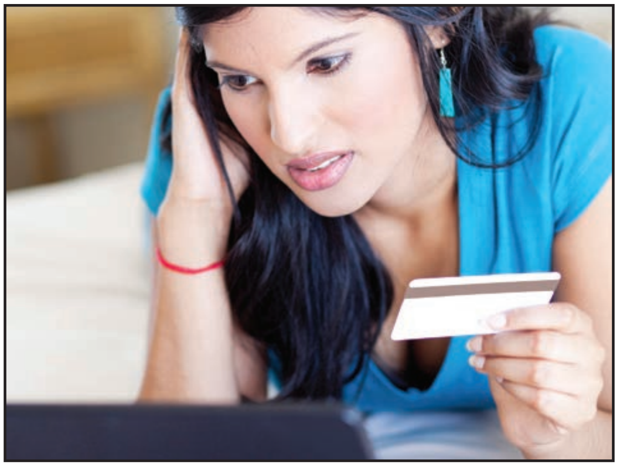
When possible, go paperless. Limit access to consumer information with passwords. Logins should give employees and vendors access to only those data fields necessary to fulfill their jobs.

4. Don't keep customer information indefinitely

Retain consumer information for a limited time period only. If someone just test drives a vehicle, it's really unnecessary to keep a copy of his or her driver's license. But do keep the name and contact information for follow-up calls or e-mails.

What if you're legally required to retain hard copies of purchase agreements after deals close? Store them onsite under lock and key. Or move records offsite for storage with a reputable, trusted vendor.

Customer information retained in your computer system should be purged periodically. Discuss the retention length of your customer base with your management staff and your DMS provider to determine what's appropriate for your dealership. ■



Boomers regain top spot as new car buyers

The oldest baby boomers — those 55 to 64 — have replaced younger consumers (35 to 44) as the U.S. demographic group most likely to buy a new vehicle, according to a study by the University of Michigan's Transportation Research Institute.

The reason behind the surprising statistic, according to the study's author, is that many boomers are continuing to work and, because they grew up in an era where a car was a psychological extension of oneself, buying a new one remains important. But Gen Yers and other younger drivers are more likely to view cars merely as a mode of transportation. ■

New financial reporting option for non-GAAP dealerships

A new financial reporting option could ease the process for privately held, owner-managed dealerships not required to follow Generally Accepting Accounting Principles (GAAP). The American Institute of Certified Public Accountants (AICPA) recently released the *Financial Reporting Framework for Small- and Medium-Sized Entities* (SME framework).

The framework is modeled after a set of private company principles developed by the Canadian Institute of Chartered Accountants (which has since merged with another group to create CPA Canada). Its purpose is to help these businesses clearly and concisely report what they own, what they owe and their cash flow.

Calling the new option a real "game-changer," Bob Durak, the AICPA's Director of Private Company Financial Reporting, told the trade press, "Millions of small businesses across the country will have another set of standards to choose from. . . . It's cost-effective, and a simplified approach — it's really a response to market demand."

According to the AICPA, the SME framework is a streamlined alternative to GAAP that focuses on the SME's performance and its assets, liabilities and cash flows. The new framework is expected to be relevant to lenders and other SME constituents, because it will report a business's profitability, cash available and assets to cover expenses.

The accounting principles in the framework reportedly are suitable to SMEs. For example, it:

❏ Uses historical cost as its measurement basis, allowing SMEs to avoid complicated fair value measurements,

❏ Reduces book-to-tax differences,

❏ Doesn't require complicated accounting for derivatives, hedging activities or stock compensation, and

❏ Targets its disclosure requirements to provide users of financial statements with the relevant information they need while recognizing that users can obtain additional information from management if they desire.

For more information on the SME framework, and to discuss whether the option is appropriate for your dealership, contact your CPA. Also, contact your manufacturer and lender to verify that this accounting method is acceptable to them. ■